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Debtor-in-Possession

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Of Attorneys for Sunshine Dairy Foods Management, LLC
Debtor-in-Possession

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF OREGON

In re

Sunshine Dairy Foods Management, LLC
and Karamanos Holdings, Inc.,

Debtors-in-Possession.

Bankruptcy Case Nos.

18-31644-pcm11 (Lead Case)

18-31646-pcm11

DEBTORS' NOTICE OF INTENT AND
MOTION FOR AUTHORITY TO ENTER
INTO INDEMNITY AGREEMENT

**EXPEDITED HEARING SCHEDULED
FOR AUGUST 24, 2018 at 9:30 a.m.**

Debtors-in-Possession, Sunshine Dairy Foods Management, LLC ("Sunshine") and
Karamanos Holdings, Inc. ("Karamanos") (collectively "Debtors") move this Court for entry of an

order pursuant to 11 USC §§ 105(a) and 363 authorizing Debtors to enter into the Indemnity Agreement attached hereto as **Exhibit A**. In support of this Motion, the Debtors represent as follows:

POINTS AND AUTHORITIES

1. Debtors filed their voluntary Petitions under Chapter 11 of Title 11 of the United States Code on May 9, 2018.
2. Debtors remain in possession of their assets and continue to operate their business as debtor-in-possession pursuant to § § 1107(a) and 1108 of the Bankruptcy Code.
3. The relief requested herein by Debtors is based on the Court's authority pursuant to 11 USC § 105(a) and 11 USC § 363.
4. Sunshine is a limited liability company headquartered in Portland, Multnomah County, Oregon. Karamanos is an Oregon corporation headquartered in Portland, Multnomah County, Oregon. Sunshine is in the business of manufacturing, packaging, and distributing dairy, non-dairy, and other related food products throughout the United States of America. The Debtors are the successor entities to the dairy delivery business founded in 1935 by John Karamanos.
5. Debtors' operations have run at a deficit in recent years, due to changes in the dairy industry, a series of management changes, and a troubled rollout of a new set of accounting software. Notwithstanding Debtors' difficulties, Debtors continue to enjoy a unique position in the marketplace with a solid set of co-packing arrangements, an excellent reputation for manufacturing, packaging, and distributing dairy, non-dairy, and other related food products, and a strong set of customer relationships.
6. On May 8, 2018, Debtors employed Daniel J. Boverman as CRO to render turnaround management services in connection with the possible investment, sale, merger, consolidation, reorganization or other business combination, or similar transactions involving all or a substantial

portion of the business or assets of the company, whether effected in one transaction or a series of transactions.

7. Debtors, their representatives and professionals have contacted multiple potential investors, merger partners, and asset acquirers. Debtors have entered into confidentiality agreements and provided due diligence access with respect to those parties interested in pursuing the matter. Debtors have reviewed, considered and responded to various proposals and inquiries related to the potential purchase of Debtors' assets or post-petition financing convertible to equity.

8. As a result of these contacts, Debtors have received a Term Sheet to purchase substantially all of Debtors' assets related to the operation of the East Plant Facility from Lyrical Foods, Inc. ("Lyrical"). Debtors have determined, in the exercise of Debtors' business judgment, that the offer from Lyrical is the best offer received at this time with a likelihood of the transaction being successfully completed.

9. On August 10, 2018 Debtors entered into the Asset Purchase Agreement with Lyrical ("APA"). A copy of the APA is attached hereto as Exhibit 1 and incorporated herein by this reference. Lyrical has informed Debtors that time is of the essence for their purchase of the assets.

10. Debtors intend to sell the assets described in the APA pursuant to a sale in accordance with § 363 of the Bankruptcy Code with the opportunity for additional qualified parties to bid on the assets at a time and place prior to the hearing on the sale. The Debtors have filed a motion to approve certain bidding procedures, which are designed to comply with the APA and allow other interested parties an opportunity to bid.

11. Debtors have sought authority to use cash collateral to continue operations at the East Plant Facility, as continued operations is a condition for closing of the proposed sale under the APA. Sunshine's cash collateral will be used for continued operations, but the sale is intended to benefit

both Sunshine and KHI. Therefore, to ensure that Sunshine obtains a benefit from the sale of the East Plant, and to ensure that Sunshine's bankruptcy estate does not bear the entire risk of loss from continued East Plant operations prior to the closing of such sale, KHI proposes to indemnify and hold Sunshine harmless from diminution in Sunshine's Asset Base (defined below) that is directly attributable to continued operations at the East Plant, from August 13, 2018, to the date of the sale of the East Plant, to the extent such losses are not recouped from Sunshine's receipt of proceeds from the sale. "Asset Base" is defined in the Amended Third Interim Order Authorizing Use of Cash Collateral [Docket No. 318].

12. To memorialize KHI's commitment to indemnify Sunshine, the Parties propose to enter into the Indemnity Agreement attached hereto as **Exhibit A**, subject to approval by the Bankruptcy Court.

13. Under the terms of the Indemnity Agreement, KHI will grant Sunshine a security interest in KHI's portion of East Plan sale proceeds to secure KHI's indemnity obligations.

14. The Debtors believe that pursuing the sale of the East Plant is in the best interest of their respective estates, and that the Indemnity Agreement is reasonable and necessary to consummating that sale.

15. As set forth in the attached Notice of Hearing, a hearing on this Motion WILL BE HELD ON August 24, 2018, at 09:30 am in Courtroom No. 1, U.S. Bankruptcy Court, 1001 SW Fifth Avenue, Suite 700, Portland, Oregon.

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WHEREFORE, Debtors prays that Debtors be authorized to enter into the Indemnity Agreement attached hereto as **Exhibit A**.

DATED: August 17, 2018

MOTSCHENBACHER & BLATTNER LLP

VANDEN BOS & CHAPMAN, LLP

By: /s/Nicholas J. Henderson
Nicholas J. Henderson, OSB #074027
Of Attorneys for Debtor-in-Possession
Karamanos Holdings, Inc.

By: /s/Douglas R. Ricks
Douglas R. Ricks, OSB #044026
Of Attorneys for Debtor-in-Possession
Sunshine Dairy Foods Management, LLC

INDEMNITY AGREEMENT

This Indemnity Agreement (the “Agreement”) is dated the 17th day of August, 2018, by and between the Bankruptcy Estate of Karamanos Holdings, Inc. (“KHI” or “Indemnitor”) and the Bankruptcy Estate of Sunshine Dairy Foods Management, LLC (“Sunshine” or “Indemnatee”). In this Agreement, KHI and Sunshine are each referred to as a “Party,” and are collectively referred to as the “Parties.”

RECITALS

A. On May 9, 2018, Sunshine filed a petition for relief under Chapter 11, Title 11 of the United States Bankruptcy Code (the “Bankruptcy Code”), in the U.S. Bankruptcy Court for the District of Oregon (the “Bankruptcy Court”) Case Number 18-31644-pcm11 (the “Sunshine Case”).

B. Also on May 9, 2018, KHI filed a petition for relief under Chapter 11 of the Bankruptcy Code, Bankruptcy Court Case Number 18-31646-pcm11 (the “KHI Case”).

C. On May 14, 2018, the Bankruptcy Court entered the Order Directing Joint Administration of Chapter 11 Cases [Sunshine Case, Docket No. 33], causing the joint administration of the Sunshine Case and the KHI Case, with all filings in the Bankruptcy Cases to be made in the Sunshine Case.

D. As of the date of this Agreement, the Bankruptcy Court has entered several orders granting the Parties with authority to use cash collateral to continue Sunshine’s business operations at its facility located at 8440 NE Halsey Street, Portland, OR 97220 (the “East Plant”). The Parties have sought authority to continue the use of cash collateral, so that the Parties may sell the assets and business associated with the East Plant.

E. In order to ensure that Sunshine obtains a benefit from the sale of the East Plant, and to ensure that Sunshine’s bankruptcy estate does not bear the risk of loss from continued East Plant operations prior to the closing of such sale, KHI is willing to indemnify and hold Sunshine harmless from diminution in Sunshine’s Asset Base (defined below) that is directly attributable to continued operations at the East Plant, from August 13, 2018, to the date of the sale of the East Plant, to the extent such losses are not recouped from Sunshine’s receipt of proceeds from the sale.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, subject to the conditions set forth in this Agreement, Sunshine and KHI hereby agree as follows:

AGREEMENT

1. Recitals Incorporated. The Recitals are a material part of this Agreement and are incorporated by reference.

2. Indemnity and Hold Harmless Agreement. If Sunshine’s Asset Base (defined below) diminishes between August 13, 2018, and the closing of a sale of the East Plant (the “Pre-Sale Period”), then KHI will indemnify and hold Sunshine harmless for such diminution, but

only to the extent that 1) diminution is directly attributable to continued operations of the East Plant during the Pre-Sale Period; and 2) such diminution is not recouped from Sunshine's receipt of proceeds from the Sale of the East Plant. In this Agreement, "Asset Base" shall have the same meaning as that term is defined in the Amended Third Interim Order Authorizing Use of Cash Collateral [Sunshine Case, Docket No. 318].

3. Security Interest. To secure the prompt payment and performance in full when due, of the indemnity obligations under this Agreement, KHI hereby grants to Sunshine a continuing security interest in, and a right to set off against, any and all right, title and interest of KHI in and to KHI's share of proceeds from the sale of the East Plant.

4. Conditions Precedent. The Parties will request authority to enter into this Agreement no later than August 17, 2018. This Agreement is not effective unless and until it is authorized by the Bankruptcy Court.

5. No Assignment. Neither Party may assign this Agreement or their respective rights hereunder, in whole or in part, without the advance written consent of the non-assigning party. Any unauthorized assignment shall be null and void and of no force or effect.

6. Governing Law, Jurisdiction, Venue. This Agreement shall be governed by and construed and enforced in accordance with the Bankruptcy Code and to the extent not inconsistent with the Bankruptcy Code, the internal laws of the State of Oregon without giving effect to the principles of conflicts of law of Oregon. The Parties further agree that the Bankruptcy Court shall have exclusive jurisdiction over all disputes and other matters relating to the interpretation and enforcement of this agreement; provided, however, that if the Bankruptcy Court refuses to accept jurisdiction over any such dispute, then any state or federal court located in the County of Multnomah, State of Oregon shall have jurisdiction over such dispute and the Parties hereby consent to the jurisdiction of such court in any such case.

7. Miscellaneous.

7.1 This agreement will be binding upon the heirs, successors and permitted assigns of the parties.

7.2 Time and strict performance are the essence of this Agreement.

7.3 The failure of any Party at any time to require performance of this Agreement, will in no way affect his right hereunder to enforce the same, nor will any waiver of any succeeding breach of such provision, act as a waiver of the provision itself.

7.4 This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which will constitute a single agreement. Facsimile, scanned and e-mailed or electronic signatures will be treated as original signatures. At the request of any party, an originally executed document will be mailed following the sending of any facsimile or scanned and e-mailed version.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

SIGNATURES TO APPEAR ON FOLLOWING PAGE

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate as of the Effective Date.

INDEMNITOR:

Karamanos Holdings, Inc.

By: _____

Name: Norman Davidson III

Title: President

INDEMNITEE:

Sunshine Dairy Foods Management, Inc.

By: _____

Name: Daniel J. Boverman

Title: Chief Restructuring Officer

In re Sunshine Dairy Foods Management, LLC
Ch 11 Bankruptcy Case No. 18-31644-pcm11
In re Karamanos Holdings, Inc.;
Chapter 11 Bankruptcy Case No. 18-31646-pcm11

CERTIFICATE - TRUE COPY

DATE: August 17, 2018

DOCUMENT: DEBTORS' NOTICE OF INTENT AND MOTION FOR AUTHORITY TO ENTER
INTO INDEMNITY AGREEMENT

I hereby certify that I prepared the foregoing copy of the foregoing named document and have carefully compared the same with the original thereof and it is a correct copy therefrom and of the whole thereof.

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing on:

Sunshine Dairy Foods
Management, LLC
Attn: Norman Davidson, III
801 NE 21st Ave.
Portland, OR 97232

Valley Falls Farm, LLC
c/o Bryan P. Coluccio, V.P. and
General Counsel Keystone-Pacific, LLC
18555 SW Teton Avenue
Tualatin, OR 97062

Sorrento Lactalis, Inc.
c/o Phillips Lytle LLP
Attn: Angela Z. Miller
125 Main Street
Buffalo, NY 14203

Karamanos Holdings, Inc.
Attn: Norman Davidson, III
801 NE 21st Ave.
Portland, OR 97232

Scott Laboratories Inc.
Attn: Jill Skoff, Accting Assistant
PO Box 4559
Petaluma, CA 94955

High Desert Milk c/o
Steven Tarbet, CFO 1033
Idaho Avenue
Burley, ID 83318

Stiebrs Farms, Inc
c/o Janis E. Stiebrs, President
P.O. Box 598
Yelm, WA 98597

Ernest Packaging Solutions
c/o Jennifer Delgadillo Director of Corp.
Credit 5777 Smith Way St.
Commerce, CA 90040

Electric Inc. c/o
Christopher C. Winston,
President P.O. Box 820386
Vancouver, WA 98682

SEC Attn: Bankruptcy Counsel 444
South Flower Street, Suite 900 Los
Angeles CA 90071-9591

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Madison, WI 53719

First Business Capital
Corp.
c/o Michael Fletcher
Tonkon Torp LLP 888 SW
5th Ave Ste 1600
Portland OR 97204

Citibank, NA
c/o Barbara Desoer
701 East 60th Street North
Sioux Falls, SD 57104

First Business Capital Corp.
c/o Chuck Batson, President & CEO
401 Charmany Dr
Madison, WI 53719

Ford Motor Credit
Company PO Box 552679
Detroit, MI 48255

Ford Motor Credit Company LLC c/o
CT Corp. System, RA
780 Commercial St SE Ste 100
Salem, OR 97301

First Business Capital Corp.
c/o Albert N. Kennedy
Tonkon Torp LLP
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Portland OR 97204

ODR
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IRS
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Portland, OR 97204-2936

IRS
Centralized Insolvency Operation
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Philadelphia, PA 19101

LCA Bank Corporation
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LCA Bank Corporation
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15 West South Temple Ste 1700
Salt Lake City, UT 84101

Multnomah Assessment &
Taxation
501 SE Hawthorne, 1st Floor
P.O. Box 5007
Portland, OR 97208

Multnomah County Tax Assessor
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Toyota Motor Credit Corporation
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6565 Headquarters Dr.
Plano, TX 75024

Toyota Motor Credit Corporation
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780 Commercial St SE Ste 100
Salem, OR 97301

ODR
c/o Ellen Rosenblum,
Attorney General Oregon
Department of Justice
1162 Court St, NE
Salem, OR 97301-4096

U.S. Attorney,
District of Oregon
1000 SW 3rd, #600
Portland, OR 97204-2936

by mailing a copy of the above-named document to each of them in a sealed envelope, addressed to each of them at his or her last known address. Said envelopes were deposited in the Post Office at Portland, Oregon, on the above date, postage prepaid.

I hereby certify that the foregoing document was served on all CM/ECF participants through the Court's Case Management/Electronic Case File system on the date set forth below.

Dated: August 17, 2018

MOTSCHENBACHER & BLATTNER, LLP

By: /s/Nicholas J. Henderson
Nicholas J. Henderson, OSB #074027
Of Attorneys for Karamanos Holdings, Inc.